FARM 21

Food and Agriculture Risk Management for the 21st Century Act
Senator Richard Lugar

Providing a strong agriculture safety-net ensures our national security, provides access to nutritious foods, protects rural development, enriches our energy supplies, and encourages appropriate environmental practices and conservation. However, our current farm policies, sold to the American public as a safety-net, actually hurt the family farmer. Our farm programs have spurred domestic farm consolidation, violated our international trade agreements, and have not helped farmers when they have needed it the most.

The genesis of our current farm policies began during the Great Depression as an effort to help alleviate poverty among farmers and rural communities. Farm programs were instituted that stifled agricultural productivity in order to raise commodity prices through a federally administered supply and demand program. Supply control programs cost U.S. taxpayers handsomely in higher food costs and job loss and about half of the nation's farmers are essentially prevented from growing other crops such as healthy fruits and vegetables. To date, this same antiquated idea is promoted even though farm income is higher on average than other industries.

In 1996 Congress finally recognized that farmers, not the government, could best ascertain what crops are profitable, and granted roughly half of our farmers flexibility in planting choices, and began to transition away from federally controlled agriculture programs.

But in 2002, the Congress and the Bush Administration rejected these reforms. They adopted a program that continued the "transition" or direct payments and subsidies to farmers. They reasserted the old program of "countercyclical payments" or having the taxpayer pay farmers when prices fall below a congressionally set price and allowed farmers to not repay loans from the government if crop prices fall below a set price. These payments come in addition to the nearly annual disaster relief payments which are usually provided as a part of emergency supplemental spending which increases our deficit. Fixing the farm safety-net would eliminate the perceived need for these programs.

The Impact of Our Current Agriculture Policies

In the name of maintaining the family farm and preserving rural communities, today's programs promote subsidized farm consolidation, thus exacerbating the trend of giving more subsidies to fewer farms.

In the years 2000-05, the farm sector received $112 billion in taxpayer subsidies, but only 43 percent of all farms received payments. The largest 8 percent of all farms received 58 percent of the payments. In fact, the top 1 percent of the highest earning farmers claimed 17 percent of the crop subsidy benefits between 2003 and 2005.

Smaller farms that qualify in the current system and that could use some cash infusion did not do as well. Two-thirds of recipient farms received less than $10,000, accounting for only 7 percent of their gross cash farm income. Minority farmers fared even worse with only 8% of farmers even receiving federal farm subsidies.

Our farm policies also hurt rural development. Ironically, the counties that receive the most federal subsidies have little job growth and population is actually declining. Furthermore, half of the federal crop subsidies paid between 2003 and 2005 went to only 19 congressional districts (out of 435).

With 57 percent of farms without a safety-net and rural development declining, the system is clearly not fair and there is a growing demand for equity among farmers and rural communities. The Lugar plan meets this demand in a fiscally responsible way.

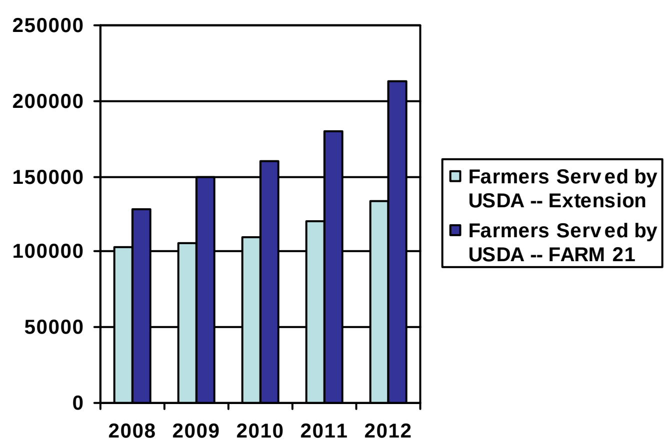
Time for a Change

Historically, there is an inappropriate political assumption that agriculture policy is impenetrable for consumers, taxpayers, the poor, and the vast majority of Americans who are being asked to pay for subsidies, while getting little in return. Even if only a small number of farmers in a state raise a program crop or one of the protected specialty crops like milk, sugar, or peanuts, their focused advocacy somehow has more political influence than the broader well-being of consumers and taxpayers. In short, those who benefit from current agriculture programs are virtually the only participants in the debate.

However, this year's farm bill debate is a good time to begin changing these dynamics. There is a presidential campaign in which candidates in both parties would do well to adopt Lugar's plan. The Agriculture Committees are struggling to fit farm programs within budget constraints. Close media observers of the Agriculture Committees are expecting a status quo debate, but this ignores a paradigm shift that is occurring among interest groups. This year an unconventional alliance of conservation, humanitarian and taxpayer advocate groups has entered the fray with success in framing the issue and building support for the Lugar bill. They represent the broadest ever political support for change.

So How Does the Lugar Plan Work?

The Lugar plan would pull out the current subsidy system root and branch. This system now makes 85 percent of its payments to farmers growing just five commodity crops: corn, soybeans, wheat, rice and cotton. Senator Lugar's plan would now apply to <u>all</u> farm income, and would end direct payment for growing commodity crops and the "counter-cyclical" payments. It would also require farmers to pay back government loans, which they currently do not need to repay if the crop price falls below an established rate.



The Lugar bill would provide a strong safety-net by utilizing modern risk management tools such as insurance and risk management savings accounts. Under Lugar's plan, farmers could purchase federally backed whole farm revenue insurance that could cover up to 85 percent of the income on the farm's operations. It would also establish a farmer-held risk management account that works like an IRA. A farmer could draw upon the account to cover the next 10 percent of income loss that might occur. They can also withdraw funds to make investments in rural enterprises that boost farm income. During the initial start up years, the USDA would seed the accounts for old program crop farmers up to $30,000 a year, with declining percent of their current direct payments phased out over six years. Farmers could put $8,000 a year into this account tax deferred and could receive additional federal payments for appropriate environmental stewardship practices.

When a farmer retires or sell his farm, the balance in the risk management account would be treated like a traditional IRA.

The Impact of this New Policy

The Lugar plan would save $20 billion by 2012 and $55 billion by 2018. The savings over the next five years would be invested in: $5 billion for debt relief, $6 billion for conservation (a 33 percent increase in these programs), $6 billion for nutrition programs (a 4 percent increase in these programs), and $3 billion for renewable energy (a 448 percent increase in these programs).

This freedom and flexibility would stimulate new income streams and rural development that might come from growing different commodities, more conservation options, energy production, carbon credits and other innovations.

In addition to providing all farmers with the tools needed to weather the ups and downs of agriculture and plan for the future, a transition to risk management accounts would help bring our subsidies into compliance with our current trade agreements and could jumpstart international negotiations that would open new markets to our farmers. Unless we drop the current subsidy system in favor of the Lugar variety, farm exports will continue to be blocked and cost the United States billions in lost trade opportunities. This is not only critical to agricultural exports, but to any business sector looking to sell abroad.

Agriculture policy is too important for rural America and the economic and budgetary health of our country to continue the current misguided path. The Lugar plan is much more equitable, produces higher net farm income for farmers, increases farm exports, avoids stimulating over-production, and gives more emphasis to environmental, nutritional, energy security and research concerns. We can bring vitality back to rural America without perpetuating the spiral of counterproductive subsidies. More importantly, we can actually protect the family farmer through an equitable safety-net and encourage rural development in a fiscally responsible manner.